

Auto-Enrolment and Personal Accounts: Summary of the Proposals

The Pensions Act 2008 includes the duty on employers to auto enrol "Eligible Employees" into a 'Qualifying Workplace Pension Scheme' (QWPS). The duty is expected to begin from 2012, but may be staged according to employer size. Eligible Employees will be those aged between 22 and State Pension Age who have qualifying earnings (employees below 22 and over 65 will be able to opt in). A QWPS will be either the "Personal Accounts Scheme" or any other employer sponsored pension arrangement that satisfies specified quality tests.

Auto-enrolment is likely to have a major effect on employers, particularly for those with low pension membership participation rates or significant numbers of non-pensioned employees.

Personal Accounts: A Quick Reminder

The Personal Accounts Scheme will be established as a defined contribution, trust-based, multi employer scheme. The proposed launch date is October 2012, although there will be an option for employers to opt into the scheme during 2011.

Employers will be required to contribute at least the minimum contribution into the scheme of 8% of Qualifying Earnings for all eligible employees, made up of a member contribution of 4%, an employer's contribution of 3% and 1% from the Government in the form of tax relief. It is expected that the minimum contribution rates will be phased in as follows:

	Minimum Employer	Minimum Total
2012	1%	2%
2013	2%	5%
2014	3%	8%

Qualifying Earnings will be total earnings (i.e. not restricted to base salary), which fall within an earnings band (£5,035 to £33,540 in 2006/07 terms); the limits will be reviewed each year.

Future regulations will provide further information on opting out and re-enrolment, the staging of the introduction of the new rules and the penalties for non-compliance.

The Personal Accounts Delivery Authority is yet to announce the arrangements for administration and investment management of the Personal Accounts Scheme.

Exemption from Personal Accounts

Employers will be exempt from offering membership of the Personal Accounts Scheme if they offer an alternative QWPS, which reaches the following prescribed requirements:

- **Defined Benefit Schemes:** Contracted out schemes will be exempt automatically. Contracted in schemes will be exempt if accrual rates are at a level of at least 1/120ths of qualifying earnings.
- **Defined Contribution Schemes:** The total contribution to the scheme must be at least 8% of Qualifying Earnings, with at least 3% being paid by the employer.

Employers will be required to register their QWPS with The Pensions Regulator.

Auto-Enrolment & Opting Out

Auto-Enrolment

The first draft of the 2012 regulations on auto-enrolment was published in March 2009; in summary:

- Employers will be obliged to automatically enrol new employees into the Personal Accounts Scheme or a QWPS within 14 days (or 7 days for a contract based scheme) from the "auto-enrolment date", which is usually the first day of employment.
- Information about the scheme must be issued to new joiners within 14 days (or 7 days for a contract based scheme).
- Employees must be provided with details of how they have been enrolled into the Scheme within 14 days of being enrolled.
- Employers can postpone auto-enrolment by up to 90 days, provided its QWPS is a defined benefit scheme or a defined contribution scheme with a total contribution rate of at least 11% (at least 6% employer contribution).

Employees Opting Out

Employees will be able to opt out and receive a full refund of their contributions, but employers may face financial penalties if they induce this.

Employees must be allowed to opt out within 30 days of receiving information about the Personal Accounts Scheme or the employer's QWPS.

Employees who opt out will be automatically re-enrolled every 3 years, unless they choose to opt out again.

Refund of contributions

A full refund of contributions must be paid to both the employer and the employee when an employee opts out.

Employees' refunds must be made by the second payday following the day the jobholder opted out or within 21 days, if later.

It will be the employer's duty to refund the contributions to the employee; however this will not be dependent on the employer first receiving the money back from the scheme.

Comment

Clearly the onset of the proposals will have a major effect on the pensions landscape in the UK. Employers should begin thinking about how the proposals will impact upon them, recognising the potential increase in costs that could result from the auto-enrolment regime.

Employers should review whether their existing pension arrangements are likely to satisfy the quality tests. Pension benefits may need a re-design and for some employees, pension contributions may need to be increased.

At the very least, internal processes should be established to ensure employers comply with the prescribed auto-enrolment and opt out procedures.

For an indication of how the proposals could affect the pension costs of your company, please access the Personal Accounts Calculator via our website www.barnett-waddingham.co.uk.

If you would like to discuss any of the above points in more detail and how Barnett Waddingham may be able to help you, please contact your usual Barnett Waddingham consultant.

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